

Message Text

UNCLASSIFIED

PAGE 01 LONDON 12250 051921Z

71

ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 /102 W

----- 021365

R 051911Z AUG 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 4300

TREASURY DEPT WASHDC

INFO AMEMBASSY PARIS

AMEMBASSY BONN

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION OECD PARIS

USMISSION EC BRUSSELS

UNCLAS LONDON 12250

E.O. 11652: N/A

TAGS: EFIN, ETRD, UK

SUBJECT: EXPORT CREDIT GUARANTEE SCHEME EXPANDED TO
COVER FOREIGN EXCHANGE LOSSES

1. THE GOVERNMENT ANNOUNCED THAT AS OF OCTOBER 1, IT WILL EXPAND THE PRESENT EXPORT CREDITS GUARANTEE SCHEME TO COVER LOSSES WHICH EXPORTERS INCUR THROUGH INVOICING IN FOREIGN CURRENCIES WHEN A BUYER DEFAULTS. THIS WILL INCLUDE LOSSES THROUGH DEFAULT WHICH RESULT FROM EXPORTERS COVERING IN FORWARD EXCHANGE MARKETS OR THROUGH FOREIGN BORROWING.

2. CURRENTLY THE EXPORT CREDIT GUARANTEE DEPARTMENT'S (ECGD) COMPREHENSIVE GUARANTEES ARE STERLING BASED. WHEN A BUYER DEFAULTS ON A FOREIGN CURRENCY DENOMINATED CONTRACT, ECGD PAYS THE CLAIM BASED ON THE STERLING RATE PRE-UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 12250 051921Z

VAILING WHEN THE CONTRACT WAS SIGNED RATHER THAN THE PRE-

VAILING RATE AT THE TIME OF DEFAULT. RECENT CURRENCY FLUCTUATIONS HAVE INDUCED MANY EXPORTERS TO COVER THEMSELVES BY FORWARD STERLING PURCHASES OR OVERSEAS BORROWING. HOWEVER, IF A BUYER DEFAULTS THE EXPORTER MUST COVER THE FORWARD COMMITMENT OR BORROWING THROUGH A SPOT MARKET PURCHASE.

3. UNDER THE CURRENT EXPORT CREDIT GUARANTEE SCHEME ECGD WOULD NOT BE ABLE TO QUANTIFY ITS LIABILITIES (WHICH MUST BE KEPT WITHIN STATUTORY LIMITS) IF IT PAID STERLING AT THE RATE AT TIME OF DEFAULT RATHER THAN THE RATE AT THE TIME OF CONTRACT COMMITMENT. IN ADDITION, THERE WAS SOME FEAR THAT IF ECGD SET A PERCENTAGE LIMIT WHICH IT WOULD PAY AS RESULT OF STERLING DECLINE, THIS MIGHT POSSIBLY BE INTERPRETED AS AN OFFICIAL EXPECTATION OF STERLING DEPRECIATION.

4. UNDER THE NEW POLICY EFFECTIVE OCTOBER 1, EXPORTERS INVOICING IN FOREIGN CURRENCIES WILL BE COVERED AGAINST BUYER DEFAULT THAT RESULT IN ADDITIONAL LOSSES DUE TO EXCHANGE RATE CHANGES. EXPORT CREDIT COVER WOULD BE RELATED TO THE RATE OF EXCHANGE AT THE TIME THAT THE DEFAULT OCCURRED BUT WITHIN GIVEN PERCENTAGE LIMITS DEPENDING UPON THE LENGTH OF MATURITY OF THE CONTRACT.

A) FOR CREDIT TERMS UP TO 6 MONTHS ECGD WILL PAY UP TO 10 PERCENT ABOVE THE STERLING RATE PREVAILING AT THE TIME THE CONTRACT WAS SIGNED. THIS ADDITIONAL 10 PERCENT WILL BE PAID FROM GENERAL PREMIUM REVENUES: NO ADDITIONAL PREMIUM WILL BE REQUIRED AT THIS TIME. BUT THE GENERAL PREMIUM CHARGE WILL BE REVIEWED BASED ON PAYOUT EXPERIENCE.

B) FOR MEDIUM TERM CREDIT OF UP TO 5 YEARS THE EXPORTER MAY CHOOSE THE EXTENT OF ADDITIONAL COVERAGE DESIRED. AN ADDITIONAL PREMIUM WILL BE CHARGED ON A PRO-RATA BASIS DEPENDING ON THE PERCENT OF EXCHANGE LOSS COVERAGE DESIRED.

C) FOR CONTRACTS WITH A MATURITY IN EXCESS OF 5 YEARS ECGD WILL OFFER OPEN ENDED COVERAGE FOR EXCHANGE LOSSES. HOWEVER, THERE WILL BE A "STIFF PREMIUM CHARGE." THE PAYMENT FOR LONGER TERM CONTRACTS WILL BE DONE IN CO-UNCLASSIFIED

UNCLASSIFIED

PAGE 03 LONDON 12250 051921Z

ORDINATION WITH H.M. TREASURY THROUGH THE EXCHANGE EQUALIZATION ACCOUNT, WITH A PORTION OF THE PREMIUMS BEING PAID INTO THIS ACCOUNT.

5. ONLY THOSE EXPORTERS WHO HAVE COVERED THEMSELVES THROUGH FORWARD EXCHANGE MARKET TRANSACTIONS OR OVERSEAS BORROWING WILL BE ELIGIBLE FOR COVERAGE. IN ADDITION COVER WILL ONLY APPLY TO THOSE CURRENCIES IN WHICH THERE

IS A FORWARD EXCHANGE MARKET OR BORROWING FACILITY.

6. COMMENT: AS WE UNDERSTAND THE NEW SCHEME IT IS NOT
INTENDED AS STRAIGHT INSURANCE AGAINST CURRENCY FLUCTUA-
TIONS AND IS APPLICABLE ONLY IN THOSE CASES OF BUYER
DEFAULT.

ARMSTRONG

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: EXPORT CREDIT GUARANTEES, BUSINESS LOSSES, FOREIGN EXCHANGE RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 05 AUG 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976LONDON12250
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760302-1065
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760881/aaaactik.tel
Line Count: 123
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 22 MAR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <22 MAR 2004 by ReddocGW>; APPROVED <27 JAN 2005 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EXPORT CREDIT GUARANTEE SCHEME EXPANDED TO COVER FOREIGN EXCHANGE LOSSES
TAGS: EFIN, ETRD, UK
To: STATE
TRSY
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006